

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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E.O. 11652: N/A

TAGS: EGEN EFIN MO

SUBJECT: FINANCE MINISTER ASSESSES MOROCCAN ECONOMIC PERFORMANCE
AT MID-YEAR

REF: A. RABAT 3085

B. RABAT 3015

C. RABAT 2951

D. RABAT 2796

1. SUMMARY: MINISTER OF FINANCE BENSLIMANE, SPEAKING ON JUNE 30 BEFORE CREDIT AND FINANCE COMMITTEE OF CENTRAL BANK, ANALYZED PERFORMANCE OF MOROCCAN ECONOMY SINCE DOWNTURN IN WORLD ECONOMY IN LATE 1973 WITH EMPHASIS ON BANKING SECTOR AND DEVELOPMENTS DURING FIRST HALF 1975. FOLLOWING JUNE 25 PRESENTATION OF CENTRAL BANK ANNUAL REPORT (FULL TEXT NOT YET RELEASED) FINMIN ADDRESS CONTAINED ELEMENTS CONFIRMING AND EXPANDING RECENT REPORTING. FINMIN CHARACTERIZED MOROCCANIZATION OF PRIVATE BANKS AS OUTSTANDING SUCCESS; NOTED THAT BANKING BECAUSE OF CLOSE CONTACT WITH FOREIGN SECTOR LESS INSULATED DURING EARLY MONTHS OF ECONOMIC DOWNTURN THAN REST OF MOROCCAN ECONOMY WHICH ONLY NOW FEELING DRAFT; REPORTED ATTENUATION OF DOMESTIC INFLATION DURING FIRST

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HALF 1975, WHILE STRESSING NEED FOR CAUTION IN EXPANDING

CREDIT AT THIS SENSITIVE JUNCTURE; AND SIGNALLED LIKELY RISE
IN INTERNAL INTEREST RATES "TO STIMULATE DOMESTIC SAVINGS
AND TO TAKE ACCOUNT OF CURRENT ECONOMIC REALITIES". END SUMMARY.

2. BANK MOROCCANIZATION. FINMIN, NOTING THAT MOROCCANIZATION
OF BANKS HAD TAKEN PLACE BY PRESCRIBED MAY 31 DEADLINE,
EXPRESSED VIEW THAT PROGRAM HAD BEEN HIGHLY SUCCESSFUL DESPITE
EARLY APPREHENSIONS. MAINTAINED THAT BANKS WHICH HAD
MOROCCANIZED EARLY ON VOLUNTARY BASIS WERE AMONG MOST
PROFITABLE. "I AM PERSUADED THAT MOROCCANIZATION OF THE OTHER
BANKS WILL PERMIT THEM TO INTEGRATE THEMSELVES BETTER INTO
THE NERVE CENTERS OF OUR ECONOMY ... SO THAT OUR FOREIGN
PARTNERS CAN EXPERIENCE A HARMONIOUS INTERLOCKING OF THEIR
INTERESTS WITH THOSE OF MOROCCANS. THIS IS WHY THE
MOROCCANIZATION PROCESS WAS INSTITUTED ESSENTIALLY BY
MEANS OF PRIVATE MOROCCAN CAPITAL".

3. WORLD ECONOMY. FINMIN CHARACTERIZED WORLD ECONOMIC
SITUATION SINCE LATE 1973 AS "GENUINE ECONOMIC CRISIS".
MOROCCAN BANKING SECTOR HAS BEEN MORE AWARE OF THIS THAN REST
OF MOROCCAN ECONOMY WHICH HAS BEEN SPARED MUCH OF THE
IMPACT OF THE WORLD SITUATION AND HAS EVEN CONTINUED TO
EVOLVE FAVORABLY. THIS DESPITE FACT THAT IT "HAS REMAINED
LARGELY OPEN TO THE EFFECTS OF THE ADVERSE WORLD CONJUNCTURAL
SITUATION."

4. DOMESTIC INVESTMENT, ACCORDING TO FINMIN, HAS SHOWN SHARP
RISE DURING FIRST FIVE MONTHS OF 1975, LARGELY IN RESPONSE
TO EXPENDITURES FROM STATE EQUIPMENT BUDGET. FROM JANUARY
THROUGH MAY PUBLIC INVESTMENT OUTLAYS VIRTUALLY TRIPLED, FROM
DH 1.37 BILLION (\$360 MILLION AT \$1 EQUALS DH 3.8) COMPARED
TO DH 0.47B DURING SAME PERIOD 1974.

5. DOMESTIC INFLATION. FIGURES WERE NOT GIVEN, BUT FINMIN
ASSERTED RISE IN DOMESTIC PRICES DURING FIRST HALF IS MORE
MODERATE THAN FOR SAME PERIOD LAST YEAR. (FYI: OFFICIAL 1974
RISE WAS 14.2 PERCENT. MORE REALISTICALLY CALCULATED TO
REFLECT UP-TO-DATE MARKET BASKET OF CITY-DWELLER, MANY OBSERVERS
BELIEVE 20 PERCENT WOULD BE CLOSER TO TARGET. HOPE IS TO
REDUCE OFFICIAL RATE TO 9 PLUS PERCENT BY END OF CURRENT
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YEAR.)

6. DOMESTIC CREDIT AND INTEREST RATES. CONCLUSION OF TALK--
AND EVIDENT PURPOSE FOR WHICH IT WAS GIVEN--WAS TO CAUTION
CREDIT AND FINANCE COMMITTEE (AND BANKING COMMUNITY AT LARGE)
THAT DESPITE OUTLOOK WHICH FAR LESS WORRISOME THAN THAT FACING
MOST OF DEVELOPING WORLD, MOROCCO CAN NO LONGER AVOID MEASURES
TO TAILOR SUIT TO CLOTH. IN FINMIN WORDS "THE WORLD ECONOMIC

SITUATION, OF WHICH OUR COUNTRY IS NOW FEELING THE EFFECTS, MUST INCITE US TO A GREATER VIGILANCE. THE BANKING SYSTEM IN PARTICULAR MUST BE ALERT TO THE NEED FOR A MODERATE BUT REASONABLE DISTRIBUTION OF CREDIT. WE MUST NOT IGNORE THE DANGERS OF ILL-CONSIDERED CREDIT EXPANSION BOTH ON OUR FOREIGN BALANCE AND ON INTERNAL PRICES." FOR THIS REASON FINMIN WARNED THAT INTEREST RATE POLICY (DOMESTIC RATES HAVE BEEN WELL BELOW INTERNATIONAL RATES) MUST BE RECONSIDERED "TO TAKE INTO ACCOUNT CURRENT ECONOMIC REALITIES" AS WELL AS TO STIMULATE DOMESTIC SAVINGS.

7. COMMENT: WE HAVE LITTLE TO ADD ON BANK MOROCCANIZATION OTHER THAN TO RECALL THAT SETTLEMENTS NOT QUITE SO EASILY ACHIEVED AS FINMIN WOULD SUGGEST. NOR ARE ALL DECISIONS FINAL. FNCB FOR EXAMPLE MOROCCANIZED, LEGALLY TO BE SURE, BUT AS TEMPORIZING ACTION WHILE NEW YORK HEADQUARTERS FULLY REVIEWS LOCAL OPERATION. WE SANGUINE FNCB WILL REMAIN, BUT THIS STILL UNCERTAIN. BANK AMERICA FOLDED ITS OPERATION INTO BMCE. ON IMPACT OF WORLD ECONOMIC CRISIS ON MOROCCO, WE NOTE THAT INCREASING NUMBER OF ARTICLES HAVE BEEN APPEARING IN LOCAL PRESS IN RECENT WEEKS HIGHLIGHTING--OFTEN AT CONSIDERABLE LENGTH--ECONOMIC PROBLEMS OF OTHER COUNTRIES. SINCE INTERNATIONAL PRESS DEVOTING PAGES TO ANALYSES OF BEGINNINGS OF RECOVERY, WE HAVE INTERPRETED LOCAL PHENOMENON AS SOFTENING UP PROCESS TO PREPARE MOROCCAN PEOPLE FOR AUSTERITY MEASURES. AS REPORTED REF A, B, AND C THESE CAN BE EXPECTED TO INCLUDE INCREASED STRESS ON IMPORT-SAVING INDUSTRIES, HIGHER DOMESTIC AND FOREIGN BORROWING TO FINANCE THESE, AND INCREASED INCENTIVES TO AGRICULTURAL PRODUCTION--PROBABLY MEANING HIGHER FOOD PRICES. BENSLIMANE ADDRESS ROUNDS OFF RECENT SERIES OF ANALYSES BY PROMISING HIGHER INTEREST PAYMENTS TO PROMOTE NEEDED SAVINGS, REDUCE CONSUMER DEMAND, AND CONTAIN PRICE RISES. REMAINS TO BE SEEN HOW LIMITED OFFICIAL USE

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THIS IS TO BE RECONCILED WITH NEED TO STIMULATE PRIVATE SECTOR INVESTMENT. HIGHER PLANNING COUNCIL ALLUSIONS TO INVESTMENT CODE REVISIONS (REF B) MAY BE CLUE. END COMMENT.
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